

Health Care Indicators

Hospital, Employment and Price Indicators for the Health Care Industry: First Quarter 2001

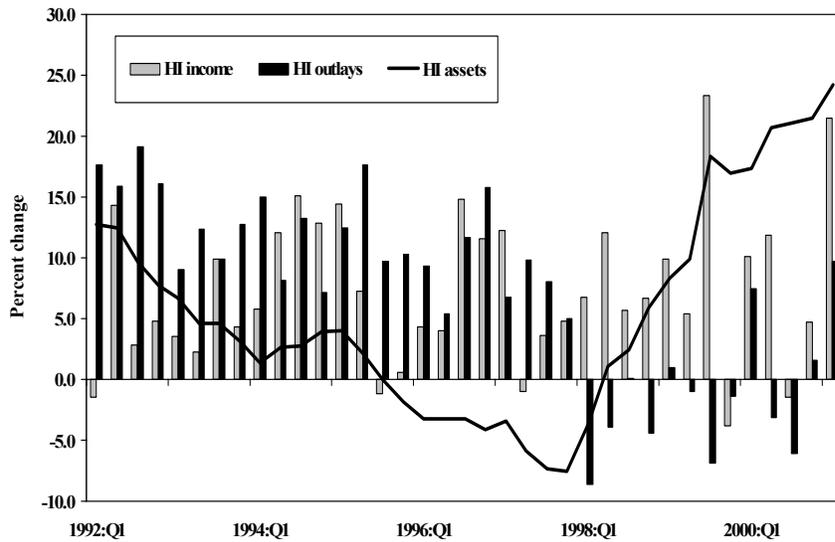
These pages present highlights from statistics on health care utilization, prices, expenses, employment, and work hours, as well as on national economic activity, with brief analysis of these economic indicators. These statistics provide an early indication of changes occurring in the health care sector and within the general economy. Tables 1 and 2, with data from the American Hospital Association, go through the fourth quarter of 2000.

Key Trends

- HI Trust Fund assets rose 24.2 percent in 2001:1 when compared to the same period of the previous year; this was the seventh quarterly double-digit increase in HI Trust Fund assets. Income rose 21.5 percent as a result of continued economic growth and a still low unemployment rate. Expenditures increased by 9.7 percent.
- Employment in the home health industry rose 0.8 percent in the first quarter of 2001 when compared to the same quarter of the previous year. This was the fifth consecutive increase following 8 consecutive quarters of decline.
- Both private hospital and nursing home and personal care facilities' employment continued to increase. When compared to estimates for 2000:1, hospital employment increased 1.8 percent and nursing home employment rose 0.9 percent in 2001:1. Both increases are the largest for these industries in 2 years.
- Fourth quarter 2000 marked the seventh consecutive quarter where the pace of growth in outpatient visits exceeded the rate of increase in community hospital inpatient discharges. Three of the last four quarters have shown double digit increases when compared to the same period of the previous year.
- Medical care service prices as measured by the CPI accelerated to a 4.9 percent growth rate in 2001:1, the sixth consecutive quarter of acceleration. The PPI for health services decelerated however, down 0.1 percentage points to a 3.0 percent rate.
- Growth in CPI hospital service prices leveled off in 2001:1 at a 6.7 percent rate. Growth in inpatient prices rose slightly while growth in outpatient prices decelerated. In contrast to the CPI, hospital prices as measured by the PPI decelerated. Input prices as measured by the CMS input price index continued to accelerate due to wage and benefit growth.
- Nursing home prices as measured by both the CPI and PPI decelerated in 2001:1. Meanwhile, input prices as measured by the CMS input price index accelerated for the sixth consecutive month.
- Home health care service prices as measured by the PPI continued to decelerate in 2001:1. Prices faced by both Medicare and non-Medicare payers decelerated while input prices continued to rise.

All questions on Health Care Indicators should be emailed to DNHS@cms.hhs.gov. Please mention "Health Care Indicators" in your request.

Figure 1: Medicare Hospital Insurance (HI) Trust Fund, Percent Change in Income, Outlays, and Assets from Same Period of Previous Year: 1992-2001



SOURCE: U.S. Treasury: *Monthly Treasury Statement*. Washington, D.C., March 1991 - March 2001.

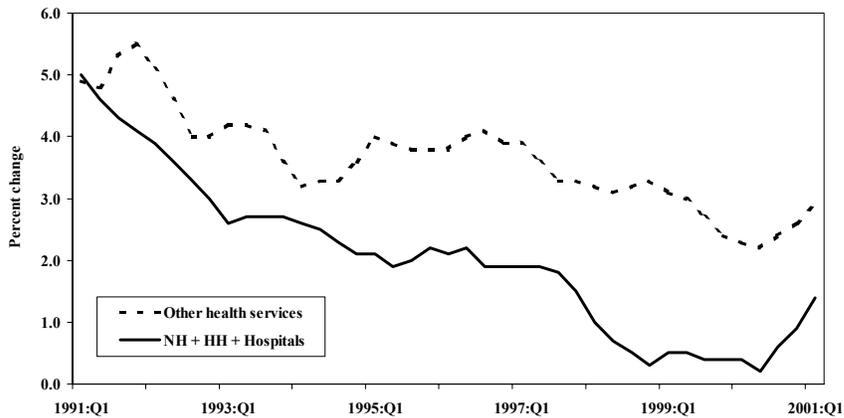
Medicare Trust Fund Operations

Medicare hospital insurance (HI or Part A) trust fund income again exceeded outlays in 2001:1, marking the twelfth consecutive quarter that trust fund assets increased when compared to the same period one year earlier (Figure 1). Income was up 21.5 percent, while outlays increased at a 9.7 percent pace. Over the past 3 years income increased as a result of a strong economy and low unemployment. Although the increase in outlays in 2001:1 was the largest of any quarter in the past 3 years, even stronger income growth allowed the HI trust fund balance to increase.

In the Medicare supplementary medical insurance (SMI or Part B) program, outlays increased by 4.6 percent for 2001:1, while SMI income rose 17.1 percent. The increase in outlays was partially due to 1997 and 1999 legislation that included the introduction of new preventative-care benefits and the shift of part of the cost of certain home health services from the HI program to the SMI program. SMI trust fund assets increased 1.2 percent, the third increase in the last 6 quarters.

Estimates published in the *2001 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund* indicate that, given current law and trends, the HI Trust Fund will be exhausted in 2029, four years later than the 2000 estimate.

Figure 2: Employment in Nursing Homes, Hospitals, Home Health and Other Health Services , Percent Change from Same Period of Previous Year: 1991-2001



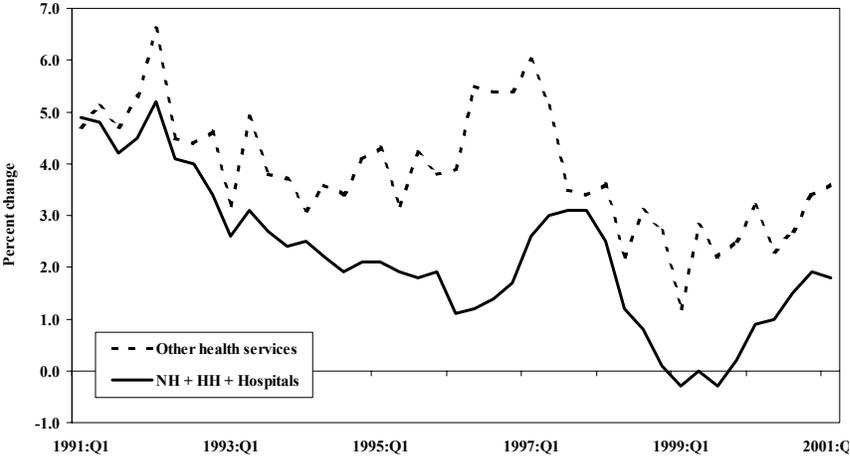
SOURCE: Bureau of Labor Statistics, U.S. Department of Labor: *Employment and Earnings*. Washington, D.C. January 1991-June 2001.

Health Care Industries:

Employment in health care industries continued its long-term growth pattern, rising 2.0 percent in 2001:1, when compared to the same period of the previous year. This was the largest increase in the past 12 quarters. The growth rate of employment in other health services (including offices and clinics of physicians, dentists, and other licensed medical professionals) remained higher than that of BBA-affected hospitals, home health, and nursing homes combined for the entire period from 1992 to 2001.

2000:1 was the first quarter since the third quarter of 1996 in which the pace of growth in health services employment exceeded that of employment in the total private economy (see table 5).

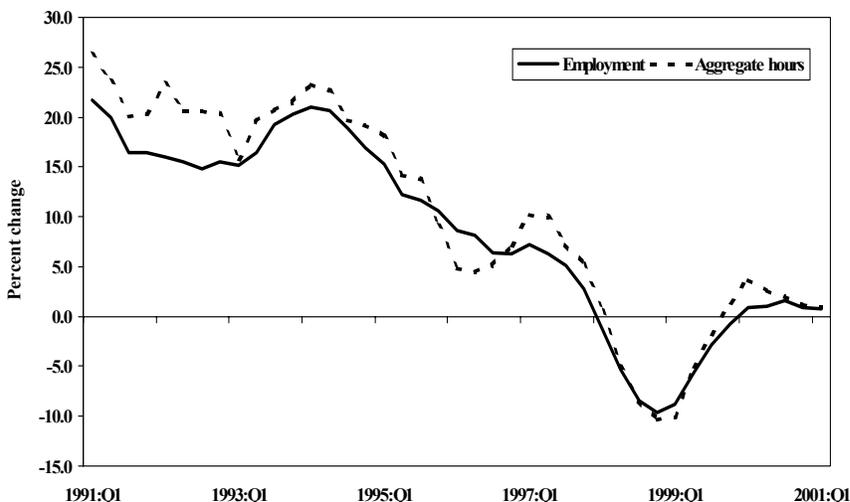
Figure 3: Aggregate Hours in Nursing Homes, Hospitals, Home Health and Other Health Services , Percent Change from Same Period of Previous Year: 1991-2001



SOURCE: Bureau of Labor Statistics, U.S. Department of Labor: *Employment and Earnings*. Washington, D.C. January 1990-June 2001.

Aggregate hours, which are the product of nonsupervisory workers and their average weekly hours, are a measure of the capacity to serve. As is true for employment, the BBA-affected group of industries and the other health services group differ in the degree of aggregate hours growth rather than the direction of change (see figure 3) in 2001:1.

Figure 4: Home Health Employment and Aggregate Hours, Percent Change from Same Period of Previous Year: 1992-2000



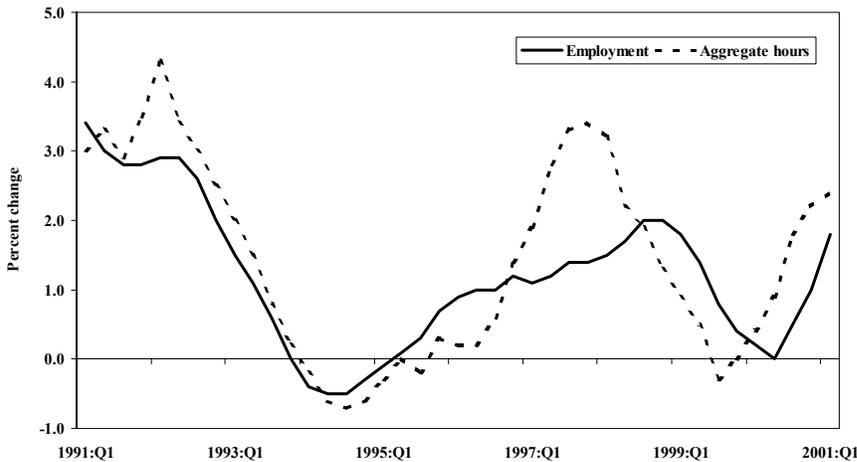
SOURCE: Bureau of Labor Statistics, U.S. Department of Labor: *Employment and Earnings*. Washington, D.C. January 1991-June 2001.

Home Health:

The home health industry appears to have stabilized. Although employment increased for the fifth consecutive quarter when compared to the same period of the previous year, the 0.8 percent increase in home health care services employment was the smallest employment increase in the health services sector (see table 5).

Home health's aggregate hours increase of 1.0 percent in the first quarter of 2001 was the smallest increase of the past 5 quarters. This was due to the smaller than usual employment increase coupled with only a 0.3 percent increase in average weekly hours. Figure 4 shows the quarterly changes in both employment and aggregate hours.

Figure 5: Hospital Employment and Aggregate Hours, Percent Change from Same Period of Previous Year: 1991-2001



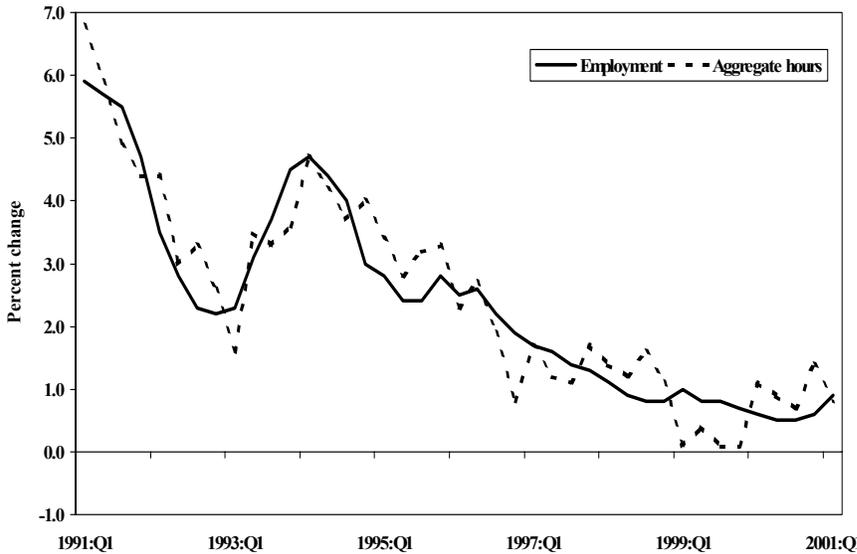
SOURCE: Bureau of Labor Statistics, U.S. Department of Labor: *Employment and Earnings*. Washington, D.C. January 1991 – June 2001.

Hospitals:

With a 2001:1 increase of 1.8 percent when compared to the same quarter of 2000, growth of total employment in private hospitals continued to accelerate. This followed increases of 0.5 percent in 2000:3 and 1.0 percent in 2000:4. Prior to 2000:3, employment growth had slowed from the fourth quarter of 1998, when the change was 2.0 percent, through the second quarter of 2000 with no change in employment.

As shown in Figure 5, the rate of growth of aggregate hours has exceeded that of employment for the past 6 quarters. This may be the result of hospitals substituting extended hours for additional employment in a labor market with a shortage of nurses.

Figure 6: Nursing Home Employment and Aggregate Hours, Percent Change from Same Period of Previous Year: 1991-2001



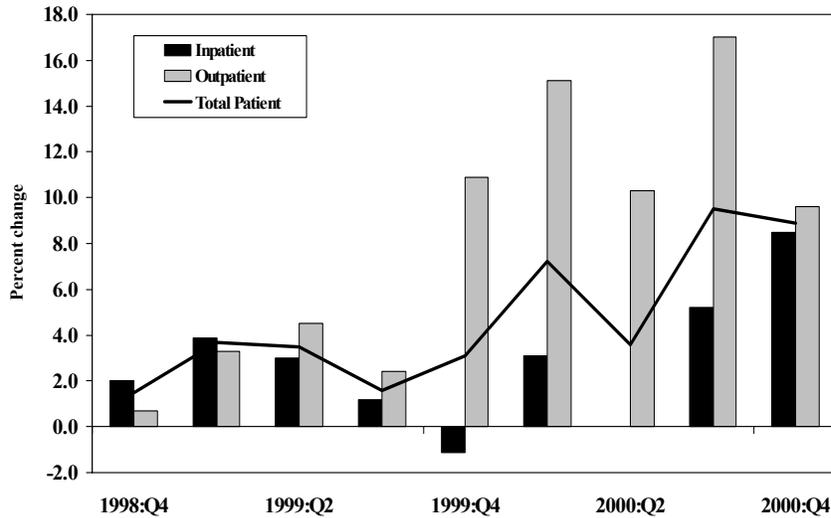
SOURCE: Bureau of Labor Statistics, U.S. Department of Labor: *Employment and Earnings*. Washington, D.C. January 1991-June 2001.

Nursing homes:

The growth rate for employment in nursing homes and personal care facilities turned upward, increasing 0.9 percent in 2001:1. Nevertheless, the pace of growth remained slow; 2001:1 marked the 12th consecutive quarter in which the employment growth rate has been 1.0 percent or less when compared to the same quarter of the previous year.

The nursing home aggregate hours increase of 0.8 percent was the smallest of all the health care industries for the third time in the past 4 quarters.

Figure 7: Inpatient and Outpatient Hospital Revenue, Change from Same Period of Previous Year: 1998-2000

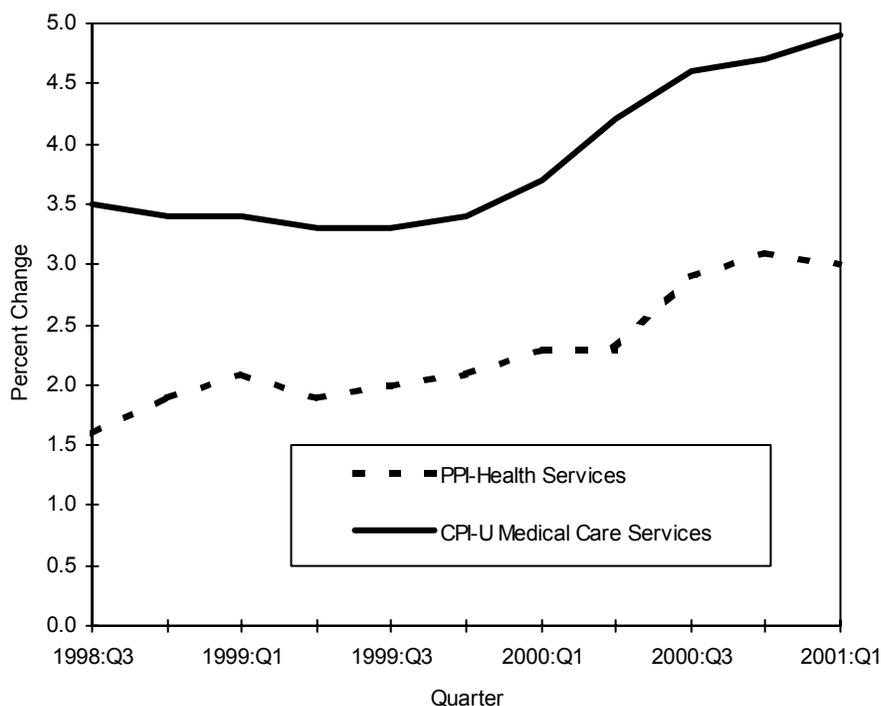


SOURCE: American Hospital Association and Lewin Group: *National Hospital Indicator Survey*. Quarterly reports for 1997:4-2000:4.

Community hospitals

Growth in outpatient visits in 2000:4 continued to increase at a faster rate than growth of inpatient discharges, when compared to the same period of the previous year. Outpatient revenue growth outpaced inpatient revenue growth for the seventh consecutive quarter, while the change in the number of outpatient visits grew faster than the change in the number of discharges for the ninth quarter in a row. The growth rates for outpatient visits and outpatient revenues again contributed to an improved outlook for community hospitals. There is some evidence that hospitals have been successful in negotiating higher fees with insurers. Figure 7 shows the differences in growth rates for inpatient and outpatient revenues for the period from 1998:4 through 2000:4, along with the trend of total patient revenue.

Figure 8: Percent Change in Medical Care Services and Health Services Prices from the Same Period of the Previous Year, 1998-2001



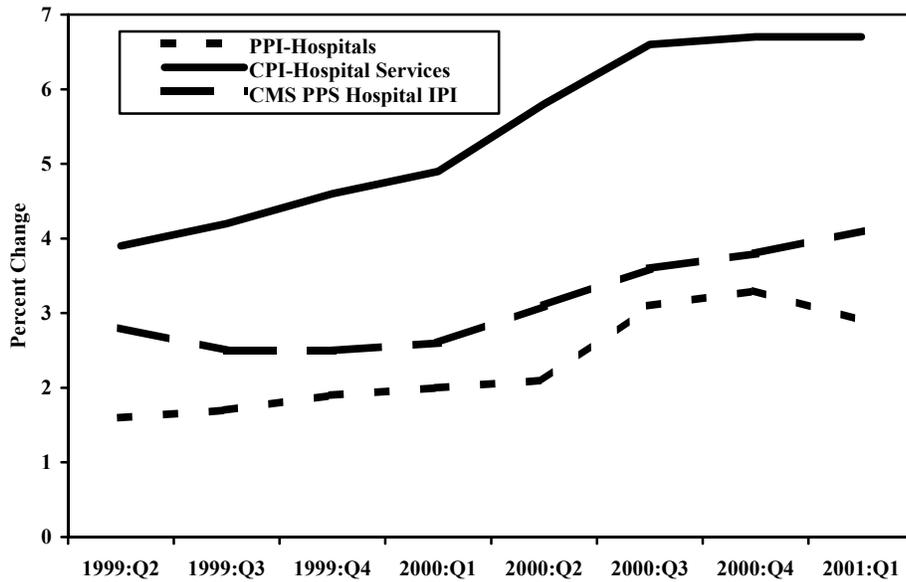
SOURCE: U.S. Department of Labor, Bureau of Labor Statistics: *CPI Detailed Report*; U.S. Department of Labor, Bureau of Labor Statistics, *Producer Price Indexes*.

Medical Care Services Prices

Medical care service prices, as measured by the Consumer Price Index (CPI), accelerated slightly to a 4.9 percent growth rate in 2001:1 (Figure 8). This is an increase of 0.2 percentage points over the previous quarter growth rate and is the sixth consecutive quarter of acceleration in this index. Meanwhile, growth in Producer Price Index (PPI) for health services decelerated, down 0.1 percentage points from the 2000:4 growth rate.

Note: The difference in the rates of growth between the CPI for medical care services and the PPI for health services reflects the definitional and conceptual differences in the two indexes. First, there are substantial differences in the services and payers captured in the two indexes. For example, the PPI includes price changes from public patients, such as Medicare and Medicaid, while the CPI includes only price changes associated with out-of-pocket expenses and private health insurance payments. In addition, the PPI includes prices for home health services while the CPI does not, and the CPI includes prices for dental and eye care services that the PPI does not. Second, the PPI captures transaction prices while the CPI in some cases is measuring changes in list (undiscounted) prices. Finally, the PPI attempts to measure prices selected from a sample of all providers while the CPI selected is measuring prices for all urban consumers.

Figure 9: Percent Change in Hospital Prices from the Same Period of the Previous Year, 1999-2001



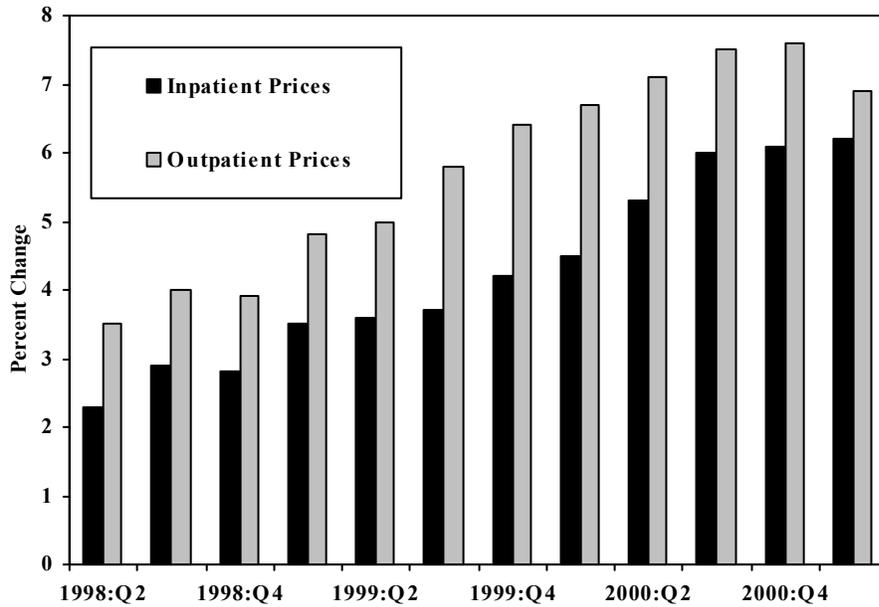
SOURCE: U.S. Department of Labor, Bureau of Labor Statistics: *CPI Detailed Report*; U.S. Department of Labor, Bureau of Labor Statistics: *Producer Price Indexes*; U.S. Department of Labor, Bureau of Labor Statistics: *Employment and Earnings*; CMS Office of the Actuary.

Hospital Prices

Hospital service prices, as measured by the CPI and shown in Figure 9, leveled off in 2001:1 at a 6.7 percent rate. Inpatient hospital prices rose slightly, up 0.1 percentage points from 2000:4 as shown in Figure 10. The high rate of growth in this index over the past four quarters may be a sign of hospitals' increased bargaining power with private insurance companies and managed care organizations. As pointed out in an article in the *New York Times*, "Many hospitals are winning sharply higher payments from insurers..."¹

¹ "Medical Costs Surge as Hospitals Force Insurers to Raise Payments," Milt Freudenheim, *The New York Times on the Web*, May 25, 2001.

Figure 10: Percent Change from the Same Period of the Previous Year in CPI Hospital Prices By Type Service, 1998-2001

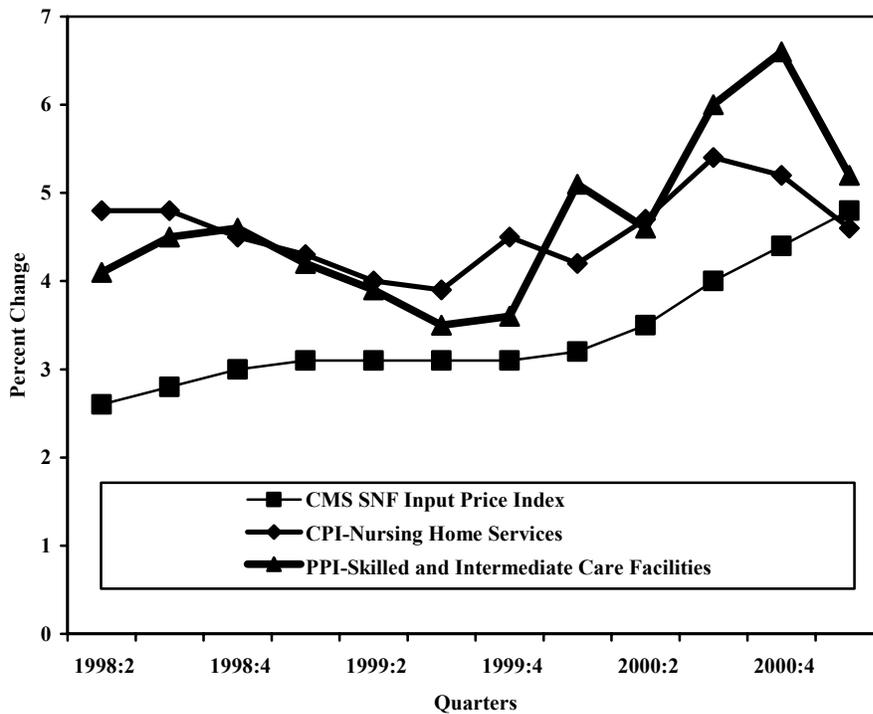


SOURCE: U.S. Department of Labor, Bureau of Labor Statistics: *CPI Detailed Report*.

A deceleration in CPI outpatient prices offset the gain in CPI inpatient prices, down 0.7 percentage points. With the continued acceleration in CPI inpatient prices and a slowing of acceleration in CPI outpatient prices, the large historical gap between the two is beginning to close. Meanwhile, hospital prices as measured by the PPI decelerated 0.4 percentage points from the previous quarter to a 2.9 percent level.

Input prices, as measured by the CMS input price index (IPI) for hospitals, have been accelerating as well, mainly due to accelerating wage and benefit growth and acceleration in professional fees as well as prices for food, medical instruments, rubber and plastics and oil and natural gas (see table 10).

Figure 11: Percent Change in Nursing Home Prices from Same Period of the Previous Year, 1998-2001

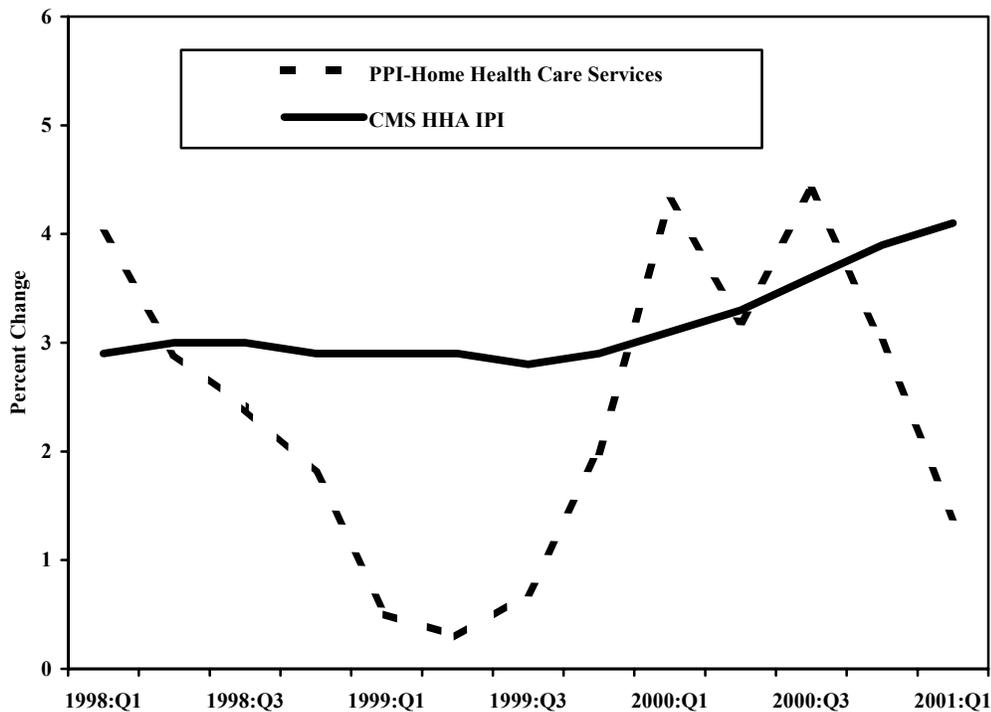


SOURCE: U.S. Department of Labor, Bureau of Labor Statistics: *CPI Detailed Report*; U.S. Department of Labor, Bureau of Labor Statistics: *Producer Price Indexes*; CMS, Office of the Actuary.

Nursing Home Prices

Nursing home price growth, as measured by the CPI, continued to decelerate in 2001:1, dropping 0.6 percentage points to a 4.6 percent rate (Figure 11). Prices as measured by the PPI also decelerated, to a 5.2 percent rate, down from a 6.6 percent rate in 2000:4. This was caused by a 1.9 percentage point drop in the prices faced by public payers and a 0.6 percentage point drop in private payer prices. In contrast, input prices, as measured by the CMS input price index, accelerated for the eighth consecutive period. Most of the acceleration in the input price index is due to higher labor costs. However, higher prices for energy and related effects continue to put increased pressure on prices.

Figure 12: Percent Change in Home Health Care Prices from the Same Period of the Previous Year, 1998-2001



SOURCE: U.S. Department of Labor, Bureau of Labor Statistics, *Producer Price Indexes*; CMS, Office of the Actuary

Home Health Prices

Home health care service prices, as measured by the PPI, continued to decelerate in 2001:1 after falling 1.4 percentage points in 2000:4 (Figure 12). The rate of growth declined to 1.4 percent from 3.0 percent in 2000:4. Deceleration in the prices faced by both Medicare and non-Medicare payers, down 4.2 and 0.1 percentage points, respectively, was the driver for the decline. Continued adjustment to the Medicare prospective payment system for home health services is most likely the primary driver for the deceleration in Medicare prices. Input prices, meanwhile, as measured by the CMS input price index for home health services continued to accelerate, mostly due to higher growth in compensation, other administrative and utility prices.